

## CNB CORPORATION BOARD OF DIRECTORS

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William R. Benson	George F. Sasser
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W. Jennings Duncan	John C. Thompson
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Phillip H. Thomas	Senior Vice President
M. Terry Hyman	Senior Vice President
Raymond Meeks	Vice President
A. Mitchell Godwin	Vice President
Jackie C. Stevens	Vice President
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Bonita H. Smalls	Banking Officer

## TO OUR SHAREHOLDERS AND FRIENDS:

The U.S. national economic recovery, commencing in the fourth quarter of 2009, continued through the first and second quarters of 2010, although slowing significantly in the second quarter. The Bureau of Economic Analysis, a division of the U.S. Department of Commerce, has indicated that real gross domestic product (GDP) increased at an annual rate of 3.7% for the first quarter of 2010 but fell to an annual rate of 1.6% for the second quarter. The decline in the growth rate of real GDP in the second quarter primarily reflects sharp acceleration in imports and sharp deceleration in private inventory investment, partly offset by increases in residential fixed investment, nonresidential fixed investment, state and local government spending, and federal government spending. Locally, the real estate sector posted gains in the first and second quarters of 2010 with the total number of real estate transactions increasing approximately 34.7% and 34.8%, respectively, in comparison to the first and second quarters of 2009. Despite these improvements, the banking industry has continued to experience significant difficulties with 86 bank failures occurring in the first six months of 2010, as compared to 45 in the first six months of 2009, and 4 in the first six months of 2008. During the first half of 2010, Conway National maintained a solid financial position. However, operating results remained below historical performance.

The net loss for the first half of 2010 totaled (\$263,000), down 109.5% from the net income of \$2,779,000 earned for the first half of 2009. Although the Company incurred a minor loss for the first half of 2010, the Bank performed well in comparison to the combined operating results of all South Carolina banks, which posted a combined return on average assets of (.09)%. On a per share basis, earnings declined 109.6% from \$1.67 for the first half of 2009, adjusted for the effect of a two-for-one stock split in 2009, to (\$.16) for the first half of 2010 representing a return on average assets of (.06)% and a return on average equity of (.60)% as compared to .62% and 6.72%, respectively, for the first half of 2009.

Total assets grew to \$934.1 million at June 30, 2010, an increase of 4.3% over June 30, 2009, and capital stood at \$87.4 million at June 30, 2010 compared to \$86.9 million at June 30, 2009. Total deposits were \$730.8 million at June 30, 2010, an increase of 7.5% from \$679.6 million for the previous year. The Bank experienced a slight decrease in repurchase agreements, which decreased .8% from \$100.9 million at June 30, 2009 to \$100.1 million at June 30, 2010. Loans totaled \$564.0 million at June 30, 2010, a decrease of 5.4% from June 30, 2009; and investment securities were \$262.9 million, an increase of 24.4% from the prior year.

The net loss for the first half of 2010 of (\$263,000) is significantly lower than historical returns experienced by the Bank. Bank earnings are primarily the result of the Bank's net interest income, which decreased 4.6% to \$15,250,000 for the first half of 2010 from \$15,978,000 for the first half of 2009. Other factors which affect earnings include the provision for possible loan losses, noninterest expense, and noninterest income. The provision for possible loan losses increased significantly, 75.0% from \$4,326,000 for the first half of 2009 to \$7,569,000 for the first half of 2010. The allowance for loan losses, as a percentage of net loans, was increased to 2.08% at June 30, 2010 as compared to 1.43% at June 30, 2009. Noninterest expense decreased 3.6% from \$12,004,000 for the first half of 2009 to \$11,575,000 for the first half of 2010; and noninterest income decreased 26.1% from \$4,376,000 to \$3,234,000 for the same periods, respectively. Noninterest expense decreased primarily due to decreased salaries and employee benefits expense and other operating expenses, which decreased 4.7% and 2.1%, respectively, for June 30, 2010 as compared to June 30, 2009. Noninterest income decreased primarily due to decreased gains on sales of investment securities and decreased other operating income, partially offset by an increase in service charge income on deposit accounts.

With the national and local economies expected to remain subdued throughout 2010 and well into 2011, we anticipate that profitability will remain below historical levels while, at the same time, expect that the Bank will continue to grow, further strengthen, and generally prosper. Although the Bank's credit concerns have been relatively minor in terms of the magnitude of non-performing assets in the industry and local markets, we will continue to address credit concerns through 2010. Loan losses have leveled, but will remain historically high throughout 2010.

Although the national and local economies have begun to show some strengthening, much uncertainty remains about the sustainability and speed of the current recovery. However, we are confident that your bank will continue steadfast and strong throughout these difficult periods. At the same time, the Bank has been positioned and prepared to meet future demands and opportunities.

Conway National continues to maintain a substantial financial position and profitability which compare favorably to local markets. Conway National remains dedicated to its conservative and prudent banking practices; and, as always, we are very appreciative of your continued support. We look forward to the future and continuing to build your bank steeped in our traditions of exceptional customer service, trust, and dedication to all of the communities we serve.

W. Jennings Duncan, *President*  
CNB Corporation and The Conway National Bank

# CNB CORPORATION and THE CONWAY NATIONAL BANK



## FINANCIAL REPORT

JUNE 30, 2010

[www.conwaynationalbank.com](http://www.conwaynationalbank.com)

# CNB CORPORATION AND SUBSIDIARY

## Conway, South Carolina

### CONSOLIDATED BALANCE SHEET (Unaudited)

	June 30, 2010	June 30, 2009
<b>ASSETS:</b>		
Cash and due from banks .....	\$ 24,973,000	\$ 15,280,000
Due from Federal Reserve Bank, balance in excess of requirement .....	37,646,000	41,593,000
Total cash and due from banks .....	<u>\$ 62,619,000</u>	<u>\$ 56,873,000</u>
Investment securities:		
Obligations of United States government sponsored enterprises .....	225,587,000	176,256,000
Obligations of states and political subdivisions .....	33,210,000	33,032,000
Other securities .....	4,121,000	3,801,000
Total investment securities .....	<u>262,918,000</u>	<u>213,089,000</u>
Federal funds sold .....	<u>14,000,000</u>	<u>-</u>
Loans .....	564,004,000	596,426,000
Less allowance for loan losses .....	(11,506,000)	(8,400,000)
Net loans .....	<u>552,498,000</u>	<u>588,026,000</u>
Bank premises and equipment .....	<u>22,775,000</u>	<u>23,678,000</u>
Other assets .....	<u>19,308,000</u>	<u>13,881,000</u>
Total assets .....	<u>\$ 934,118,000</u>	<u>\$ 895,547,000</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>		
Liabilities:		
Deposits:		
Noninterest-bearing .....	\$ 111,760,000	\$ 106,799,000
Interest-bearing .....	619,059,000	572,819,000
Total deposits .....	<u>730,819,000</u>	<u>679,618,000</u>
Securities sold under agreement to repurchase .....	<u>100,112,000</u>	<u>100,945,000</u>
Other short-term borrowings .....	<u>10,498,000</u>	<u>21,588,000</u>
Other liabilities .....	<u>5,242,000</u>	<u>6,485,000</u>
Total Liabilities .....	<u>846,671,000</u>	<u>808,636,000</u>
Stockholders' Equity:		
Common stock, par value \$5.00 per share in 2010 and \$10.00 per share in 2009; authorized 3,000,000 shares in 2010 and 1,500,000 shares in 2009; issued 1,674,870 in 2010 and 841,654 in 2009 .....	8,374,000	8,417,000
Capital in excess of par value of stock .....	51,240,000	51,881,000
Retained earnings .....	26,358,000	26,429,000
Accumulated other comprehensive income .....	1,475,000	184,000
Total stockholders' equity .....	<u>\$ 87,447,000</u>	<u>\$ 86,911,000</u>
Total liabilities and stockholders' equity .....	<u>\$ 934,118,000</u>	<u>\$ 895,547,000</u>

### CONSOLIDATED STATEMENT OF INCOME (Unaudited)

	June 30, 2010	June 30, 2009
<b>INTEREST INCOME:</b>		
Interest and fees on loans .....	\$ 17,556,000	\$ 18,789,000
Interest on investment securities:		
Taxable investment securities .....	2,235,000	2,973,000
Nontaxable investment securities .....	614,000	581,000
Other securities .....	23,000	37,000
Interest on federal funds sold and Federal Reserve Bank balances in excess of required balance .....	<u>77,000</u>	<u>37,000</u>
Total interest income .....	<u>20,505,000</u>	<u>22,417,000</u>
<b>INTEREST EXPENSE:</b>		
Interest on deposits .....	4,681,000	5,663,000
Interest on securities sold under agreement to repurchase .....	470,000	590,000
Interest on other short-term borrowings .....	<u>104,000</u>	<u>186,000</u>
Total interest expense .....	<u>5,255,000</u>	<u>6,439,000</u>
Net interest income .....	<u>15,250,000</u>	<u>15,978,000</u>
Provision for loan losses .....	<u>7,569,000</u>	<u>4,326,000</u>
Net interest income after provision for loan losses .....	<u>7,681,000</u>	<u>11,652,000</u>
Noninterest income:		
Service charges on deposit accounts .....	1,806,000	1,700,000
Gains on sales of securities .....	156,000	1,352,000
Other operating income .....	<u>1,272,000</u>	<u>1,324,000</u>
Total noninterest income .....	<u>3,234,000</u>	<u>4,376,000</u>
Noninterest expense:		
Salaries and employee benefits .....	6,758,000	7,093,000
Occupancy expense .....	1,616,000	1,602,000
FDIC deposit insurance assessments .....	579,000	630,000
Other operating expenses .....	<u>2,622,000</u>	<u>2,679,000</u>
Total noninterest expense .....	<u>11,575,000</u>	<u>12,004,000</u>
Income/(loss) before income taxes .....	(660,000)	4,024,000
Income tax provision/(benefit) .....	<u>(397,000)</u>	<u>1,245,000</u>
Net Income/(loss) .....	<u>\$ (263,000)</u>	<u>\$ 2,779,000</u>

\*Per share:

Net income per weighted average shares outstanding .....	<u>\$ (.16)</u>	<u>\$ 1.67</u>
Cash dividend paid per share .....	<u>\$ -</u>	<u>\$ -</u>
Book value per actual number of shares outstanding .....	<u>\$ 52.21</u>	<u>\$ 51.63</u>
Weighted average number of shares outstanding .....	<u>1,676,187</u>	<u>1,665,784</u>
Actual number of shares outstanding .....	<u>1,674,870</u>	<u>1,683,308</u>

\*Adjusted for the effect of a two-for-one stock split during 2009.